



*Note changes in*  
*P-89-97 file*  
Public Law 89-384  
89th Congress, H. R. 6319  
April 8, 1966

## An Act

*Changes in*  
*different sections*

To amend the Internal Revenue Code of 1954 to provide for treatment of the recovery of losses arising from expropriation, intervention, or confiscation of properties by governments of foreign countries, and to amend title XVIII of the Social Security Act to extend the initial enrollment period for supplementary medical insurance benefits.

See page 7  
Sec. 1837

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

### SECTION 1. RECOVERIES OF FOREIGN EXPROPRIATION LOSSES.

(a) Subchapter Q of chapter 1 of the Internal Revenue Code of 1954 (relating to readjustment of tax between years) is amended by adding at the end thereof the following new part:

Foreign expro-  
priations.  
Medical insur-  
ance benefits;  
enrollment  
period.  
78 Stat. 105.

### "PART VII—RECOVERIES OF FOREIGN EXPROPRIATION LOSSES

"Sec. 1351. Treatment of recoveries of foreign expropriation losses.

#### "SEC. 1351. TREATMENT OF RECOVERIES OF FOREIGN EXPROPRIATION LOSSES.

##### "(a) ELECTION.—

"(1) IN GENERAL.—This section shall apply only to a recovery, by a domestic corporation subject to the tax imposed by section 11 or 802, of a foreign expropriation loss sustained by such corporation and only if such corporation was subject to the tax imposed by section 11 or 802, as the case may be, for the year of the loss and elects to have the provisions of this section apply with respect to such loss.

78 Stat. 25;  
73 Stat. 115.

"(2) TIME, MANNER, AND SCOPE.—An election under paragraph (1) shall be made at such time and in such manner as the Secretary or his delegate may prescribe by regulations. An election made with respect to any foreign expropriation loss shall apply to all recoveries in respect of such loss.

"(b) DEFINITION OF FOREIGN EXPROPRIATION LOSS.—For purposes of this section, the term 'foreign expropriation loss' means any loss sustained by reason of the expropriation, intervention, seizure, or similar taking of property by the government of any foreign country, any political subdivision thereof, or any agency or instrumentality of the foregoing. For purposes of the preceding sentence, a debt which becomes worthless shall, to the extent of any deduction allowed under section 166(a), be treated as a loss.

68A Stat. 50.

##### "(c) AMOUNT OF RECOVERY.—

"(1) GENERAL RULE.—The amount of any recovery of a foreign expropriation loss is the amount of money and the fair market value of other property received in respect of such loss, determined as of the date of receipt.

80 STAT. 99.  
80 STAT. 100.

"(2) SPECIAL RULE FOR LIFE INSURANCE COMPANIES.—The amount of any recovery of a foreign expropriation loss includes, in the case of a life insurance company, the amount of decrease of any item taken into account under section 810(c), to the extent such decrease is attributable to the release, by reason of such loss, of its liabilities with respect to such item.

73 Stat. 125.

##### "(d) ADJUSTMENT FOR PRIOR TAX BENEFITS.—

"(1) IN GENERAL.—That part of the amount of a recovery of a foreign expropriation loss to which this section applies which, when added to the aggregate of the amounts of previous recoveries with respect to such loss, does not exceed the allowable deductions in prior taxable years on account of such loss shall be excluded

from gross income for the taxable year of the recovery for purposes of computing the tax under this subtitle; but there shall be added to, and assessed and collected as a part of, the tax under this subtitle for such taxable year an amount equal to the total increase in the tax under this subtitle for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, the deductions allowable in the prior taxable years on account of such loss. For purposes of this paragraph, if the loss to which the recovery relates was taken into account as a loss from the sale or exchange of a capital asset, the amount of the loss shall be treated as an allowable deduction even though there were no gains against which to allow such loss.

“(2) COMPUTATION.—The increase in the tax for each taxable year referred to in paragraph (1) shall be computed in accordance with regulations prescribed by the Secretary or his delegate. Such regulations shall give effect to previous recoveries of any kind (including recoveries described in section 111, relating to recovery of bad debts, etc.) with respect to any prior taxable year, but shall otherwise treat the tax previously determined for any taxable year in accordance with the principles set forth in section 1314(a) (relating to correction of errors). Subject to the provisions of paragraph (3), all credits allowable against the tax for any taxable year, and all carryovers and carrybacks affected by so decreasing the allowable deductions, shall be taken into account in computing the increase in the tax.

“(3) FOREIGN TAXES.—For purposes of this subsection—

“(A) any choice made under subpart A of part III of subchapter N (relating to foreign tax credit) for any taxable year may be changed,

“(B) subject to the provisions of section 904(b), an election to have the limitation provided by section 904(a) (2) apply may be made, and

“(C) notwithstanding section 904(b) (1), an election previously made to have the limitation provided by section 904(a) (2) apply may be revoked with respect to any taxable year and succeeding taxable years.

“(4) SUBSTITUTION OF CURRENT NORMAL TAX AND SURTAX RATES.—For purposes of this subsection, the normal tax rate provided by section 11(b) and the surtax rate provided by section 11(c) which are in effect for the taxable year of the recovery shall be treated as having been in effect for all prior taxable years.

“(e) GAIN ON RECOVERY.—That part of the amount of a recovery of a foreign expropriation loss to which this section applies which is not excluded from gross income under subsection (d) (1) shall be considered for the taxable year of the recovery as gain on the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 1033.

“(f) BASIS OF RECOVERED PROPERTY.—The basis of property (other than money) received as a recovery of a foreign expropriation loss to which this section applies shall be an amount equal to its fair market value on the date of receipt, reduced by such part of the gain under subsection (e) which is not recognized as provided in section 1033.

“(g) RESTORATION OF VALUE OF INVESTMENTS.—For purposes of this section, if the value of any interest in, or with respect to, property (including any interest represented by a security, as defined in section 165(g) (2))—

“(1) which became worthless by reason of the expropriation, intervention, seizure, or similar taking of such property by the

68A Stat. 33.

74 Stat. 1010.

78 Stat. 25.

80 STAT. 100.

80 STAT. 101.

government of any foreign country, any political subdivision thereof, or any agency or instrumentality of the foregoing, and

"(2) which was taken into account as a loss from the sale or exchange of a capital asset or with respect to which a deduction for a loss was allowed under section 165 or a deduction for a bad debt was allowed under section 166,

68A Stat. 49.

is restored in whole or in part by reason of any recovery of money or other property in respect of the property which became worthless, the value so restored shall be treated as property received as a recovery in respect of such loss or such bad debt.

"(h) SPECIAL RULE FOR EVIDENCES OF INDEBTEDNESS.—Bonds or other evidences of indebtedness received as a recovery of a foreign expropriation loss to which this section applies shall not be considered to have any original issue discount within the meaning of section 1232(a)(2).

"(i) ADJUSTMENTS FOR SUCCEEDING YEARS.—For purposes of this subtitle, proper adjustment shall be made, under regulations prescribed by the Secretary or his delegate, in—

"(1) the credit under section 33 (relating to foreign tax credit),

"(2) the credit under section 38 (relating to investment credit),

76 Stat. 962.

"(3) the net operating loss deduction under section 172, or the operations loss deduction under section 812,

"(4) the capital loss carryover under section 1212(a), and

78 Stat. 860.

"(5) such other items as may be specified by such regulations,

for the taxable year of a recovery of a foreign expropriation loss to which this section applies, and for succeeding taxable years, to take into account items changed in making the computations under subsection (d) for taxable years prior to the taxable year of such recovery."

(b)(1) Part II of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to items specifically included in gross income) is amended by adding at the end thereof the following new section:

**"SEC. 80. RESTORATION OF VALUE OF CERTAIN SECURITIES.**

"(a) GENERAL RULE.—In the case of a domestic corporation subject to the tax imposed by section 11 or 802, if the value of any security (as defined in section 165(g)(2))—

78 Stat. 25;  
73 Stat. 115.

"(1) which became worthless by reason of the expropriation, intervention, seizure, or similar taking by the government of any foreign country, any political subdivision thereof, or any agency or instrumentality of the foregoing of property to which such security was related, and

"(2) which was taken into account as a loss from the sale or exchange of a capital asset or with respect to which a deduction for a loss was allowed under section 165,

is restored in whole or in part during any taxable year by reason of any recovery of money or other property in respect of the property to which such security was related, the value so restored (to the extent that, when added to the value so restored during prior taxable years, it does not exceed the amount of the loss described in paragraph (2)) shall, except as provided in subsection (b), be included in gross income for the taxable year in which such restoration occurs.

80 STAT. 101.

80 STAT. 102.

"(b) REDUCTION FOR FAILURE TO RECEIVE TAX BENEFIT.—The amount otherwise includible in gross income under subsection (a) in respect of any security shall be reduced by an amount equal to the amount (if any) of the loss described in subsection (a)(2) which did not result in a reduction of the taxpayer's tax under this subtitle for any taxable year, determined under regulations prescribed by the Secretary or his delegate.



“(c) CHARACTER OF INCOME.—For purposes of this subtitle—

“(1) Except as provided in paragraph (2), the amount included in gross income under this section shall be treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231.

“(2) If the loss described in subsection (a) (2) was taken into account as a loss from the sale or exchange of a capital asset, the amount included in gross income under this section shall be treated as long-term capital gain.

“(d) TREATMENT UNDER FOREIGN EXPROPRIATION LOSS RECOVERY PROVISION.—This section shall not apply to any recovery of a foreign expropriation loss to which section 1351 applies.”

(2) The table of sections for such part II is amended by adding at the end thereof the following:

“Sec. 80. Restoration of value of certain securities.”

(3) The amendments made by this subsection shall apply to taxable years beginning after December 31, 1965, but only with respect to losses described in section 80(a) (2) of the Internal Revenue Code of 1954 (as added by paragraph (1) of this subsection) which were sustained after December 31, 1958.

(c) (1) Section 46(a) (3) of the Internal Revenue Code of 1954 (relating to liability for tax for purposes of the investment credit) is amended by inserting after “personal holding company tax)” the following: “, and any additional tax imposed for the taxable year by section 1351(d) (1) (relating to recoveries of foreign expropriation losses),”.

(2) Section 901(a) of such Code (relating to foreign tax credit) is amended by inserting after “section 1333 (relating to war loss recoveries)” in the last sentence thereof “or under section 1351 (relating to recoveries of foreign expropriation losses)”.

(d) Subchapter B of chapter 62 of the Internal Revenue Code of 1954 (relating to time and place for paying tax) is amended by adding at the end thereof the following new section:

**“SEC. 6167. EXTENSION OF TIME FOR PAYMENT OF TAX ATTRIBUTABLE TO RECOVERY OF FOREIGN EXPROPRIATION LOSSES.**

“(a) EXTENSION ALLOWED BY ELECTION.—If—

“(1) a corporation has a recovery of a foreign expropriation loss to which section 1351 applies, and

“(2) the portion of the recovery received in money is less than 25 percent of the amount of such recovery (as defined in section 1351(c)) and is not greater than the tax attributable to such recovery,

the tax attributable to such recovery shall, at the election of the taxpayer, be payable in 10 equal installments on the 15th day of the third month of each of the taxable years following the taxable year of the recovery. Such election shall be made at such time and in such manner as the Secretary or his delegate may prescribe by regulations. If an election is made under this subsection, the provisions of this subtitle shall apply as though the Secretary or his delegate were extending the time for payment of such tax.

“(b) EXTENSION PERMITTED BY SECRETARY.—If a corporation has a recovery of a foreign expropriation loss to which section 1351 applies and if an election is not made under subsection (a), the Secretary or his delegate may, upon finding that the payment of the tax attributable to such recovery at the time otherwise provided in this subtitle would result in undue hardship, extend the time for payment of such

68A Stat. 325.

Ante, p. 99.

76 Stat. 963;

78 Stat. 32.

80 STAT. 102.

80 STAT. 103.

tax for a reasonable period or periods not in excess of 9 years from the date on which such tax is otherwise payable.

“(c) ACCELERATION OF PAYMENTS.—If—

“(1) an election is made under subsection (a),

“(2) during any taxable year before the tax attributable to such recovery is paid in full—

“(A) any property (other than money) received on such recovery is sold or exchanged, or

“(B) any property (other than money) received on any sale or exchange described in subparagraph (A) is sold or exchanged, and

“(3) the amount of money received on such sale or exchange (reduced by the amount of the tax imposed under chapter 1 with respect to such sale or exchange), when added to the amount of money—

“(A) received on such recovery, and

“(B) received on previous sales or exchanges described in subparagraphs (A) and (B) of paragraph (2) (as so reduced),

exceeds the amount of money which may be received under subsection (a) (2),

an amount of the tax attributable to such recovery equal to such excess shall be payable on the 15th day of the third month of the taxable year following the taxable year in which such sale or exchange occurs. The amount of such tax so paid shall be treated, for purposes of this section, as a payment of the first unpaid installment or installments (or portion thereof) which become payable under subsection (a) following such taxable year.

“(d) PRORATION OF DEFICIENCY TO INSTALLMENTS.—If an election is made under subsection (a), and a deficiency attributable to the recovery of a foreign expropriation loss has been assessed, the deficiency shall be prorated to such installments. The part of the deficiency so prorated to any installment the date for payment of which has not arrived shall be collected at the same time as, and as part of, such installment. The part of the deficiency so prorated to any installment the date for payment of which has arrived shall be paid upon notice and demand from the Secretary or his delegate. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

“(e) TIME FOR PAYMENT OF INTEREST.—If the time for payment for any amount of tax has been extended under this section, interest payable under section 6601 on any unpaid portion of such amount shall be paid annually at the same time as, and as part of, each installment payment of the tax. Interest, on that part of a deficiency prorated under this section to any installment the date for payment of which has not arrived, for the period before the date fixed for the last installment preceding the assessment of the deficiency, shall be paid upon notice and demand from the Secretary or his delegate. In applying section 6601(j) (relating to the application of the 4-percent rate of interest in the case of recoveries of foreign expropriation losses to which this section applies) in the case of a deficiency, the entire amount which is prorated to installments under this section shall be treated as an amount of tax the payment of which is extended under this section.

“(f) TAX ATTRIBUTABLE TO RECOVERY OF FOREIGN EXPROPRIATION LOSS.—For purposes of this section, the tax attributable to a recovery of a foreign expropriation loss is the sum of—

80 STAT. 103.

80 STAT. 104.

Infra.

Ante, p. 99.

"(1) the additional tax imposed by section 1351(d) (1) on such recovery, and

"(2) the amount by which the tax imposed under subtitle A is increased by reason of the gain on such recovery which under section 1351(e) is considered as gain on the involuntary conversion of property.

"(g) FAILURE TO PAY INSTALLMENT.—If any installment under this section is not paid on or before the date fixed for its payment by this section (including any extension of time for the payment of such installment), the unpaid portion of the tax payable in installments shall be paid upon notice and demand from the Secretary or his delegate.

"(h) CROSS-REFERENCES.—

"(1) Interest.—For provisions requiring the payment of interest at the rate of 4 percent per annum for the period of an extension, see section 6601(j).

"(2) Security.—For authority of the Secretary or his delegate to require security in the case of an extension under this section, see section 6165.

"(3) Period of limitation.—For extension of the period of limitation in the case of an extension under this section, see section 6503(f)."

70 Stat. 1075.

(e) Section 6503 of the Internal Revenue Code of 1954 (relating to suspension of running of period of limitation) is amended by redesignating subsection (f) as (g), and by inserting after subsection (e) the following new subsection:

Supra.

"(f) EXTENSIONS OF TIME FOR PAYMENT OF TAX ATTRIBUTABLE TO RECOVERIES OF FOREIGN EXPROPRIATION LOSSES.—The running of the period of limitations for collection of the tax attributable to a recovery of a foreign expropriation loss (within the meaning of section 6167 (f)) shall be suspended for the period of any extension of time for payment under subsection (a) or (b) of section 6167."

(f) Section 6601 of the Internal Revenue Code of 1954 (relating to interest on underpayments) is amended by redesignating subsection (j) as (k), and by inserting after subsection (i) the following new subsection:

"(j) EXTENSIONS OF TIME FOR PAYMENT OF TAX ATTRIBUTABLE TO RECOVERIES OF FOREIGN EXPROPRIATION LOSSES.—If the time for payment of an amount of the tax attributable to a recovery of a foreign expropriation loss (within the meaning of section 6167(f)) is extended as provided in subsection (a) or (b) of section 6167, interest shall be paid at the rate of 4 percent, in lieu of 6 percent as provided in subsection (a)."

(g) (1) The table of parts for subchapter Q of chapter 1 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following:

"Part VII. Recoveries of foreign expropriation losses."

(2) The table of sections for subchapter B of chapter 62 of such Code is amended by adding at the end thereof the following:

"Sec. 6167. Extension of time for payment of tax attributable to recovery of foreign expropriation losses."

80 STAT. 104.

80 STAT. 105.

## SEC. 2. EFFECTIVE DATE.

The amendments made by section 1 (except subsection (b)) shall apply with respect to amounts received after December 31, 1964, in respect of foreign expropriation losses (as defined in section 1351(b) of the Internal Revenue Code of 1954 added by section 1(a)) sustained after December 31, 1958.



**SEC. 3. TWO-MONTH EXTENSION OF INITIAL ENROLLMENT PERIOD FOR SUPPLEMENTARY MEDICAL INSURANCE BENEFITS FOR THE AGED.**

(a) The first sentence of section 1837(c) of the Social Security Act is amended (1) by striking out "January 1, 1966" and inserting in lieu thereof "March 1, 1966", and (2) by striking out "March 31, 1966" and inserting in lieu thereof "May 31, 1966". 79 Stat. 304.  
42 USC 1395p.

(b) Section 1837(d) of the Social Security Act is amended by striking out "January 1, 1966" and inserting in lieu thereof "March 1, 1966".

(c) Section 102(b) of the Social Security Amendments of 1965 is amended by striking out "April 1, 1966" each time it appears and inserting in lieu thereof "June 1, 1966". 79 Stat. 332.  
42 USC 1395p.  
note.

(d) In the case of an individual who first satisfies paragraphs (1) and (2) of section 1836 of the Social Security Act in March 1966, and who enrolls pursuant to subsection (d) of section 1837 of such Act in May 1966, his coverage period shall, notwithstanding section 1838(a) (2) (D) of such Act, begin on July 1, 1966.

**SEC. 4. COVERAGE, UNDER STATE AGREEMENTS, OF PUBLIC ASSISTANCE RECIPIENTS ENTITLED TO SOCIAL SECURITY OR RAILROAD RETIREMENT BENEFITS.**

(a) Subsection (b) of section 1843 of the Social Security Act is amended by striking out the semicolon at the end of paragraph (2) and inserting in lieu thereof a period, and by striking out all that follows and inserting in lieu thereof (after and below paragraph (2)) the following new sentence: 42 USC 1395v.

"Except as provided in subsection (g), there shall be excluded from any coverage group any individual who is entitled to monthly insurance benefits under title II or who is entitled to receive an annuity or pension under the Railroad Retirement Act of 1937."

(b) Section 1843 of such Act is amended by adding at the end thereof the following new subsection:

"(g) (1) The Secretary shall, at the request of a State made before January 1, 1968, enter into a modification of an agreement entered into with such State pursuant to subsection (a) under which the second sentence of subsection (b) shall not apply with respect to such agreement. 50 Stat. 307,  
79 Stat. 335.  
45 USC 228a  
et seq.

"(2) In the case of any individual who would (but for this subsection) be excluded from the applicable coverage group described in subsection (b) by the second sentence of such subsection—

"(A) subsections (c) and (d) (2) shall be applied as if such subsections referred to the modification under this subsection (in lieu of the agreement under subsection (a)),

"(B) subsection (d) (3) (B) shall not apply so long as there is in effect a modification entered into by the State under this subsection, and

"(C) notwithstanding subsection (e), in the case of any termination described in such subsection, such individual may terminate his enrollment under this part by the filing of a notice, before the close of the third month which begins after the date of such termination, that he no longer wishes to participate in the insurance program established by this part (and in such a case, the termination of his coverage period under this part shall take effect as of the close of such third month)."

80 STAT. 105.  
80 STAT. 106.

79 Stat. 306.  
42 USC 1395s.

(c) Section 1840 of such Act is amended by adding at the end thereof the following new subsection:

"(i) In the case of an individual who is enrolled under the program established by this part as a member of a coverage group to which an agreement with a State entered into pursuant to section 1843 is applicable, subsections (a), (b), (c), (d), and (e) of this section shall not apply to his monthly premium for any month in his coverage period which is determined under section 1843(d)."

Approved April 8, 1966, 12:15 p.m.

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LEGISLATIVE HISTORY:

HOUSE REPORTS: No. 1125 (Comm. on Ways & Means) and No. 1419  
accompanying H.R. 14224 (Comm. on Ways & Means).

SENATE REPORT No. 1091 (Comm. on Finance).

CONGRESSIONAL RECORD:

Vol. 111 (1965): Oct. 21, considered and passed House.

Vol. 112 (1966): Apr. 1, considered and passed Senate, amended.  
Apr. 6, House concurred in Senate amendment  
with an amendment; Senate concurred in House  
amendment.

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